

2 March 2011

Superiority of Bell Potter Proposal Clarified by Independent Directors

Shareholders will recall Folkestone's ASX announcement of 21 February 2011. That announcement stated that having exercised its business judgement the Independent Directors' view has been reinforced that the Bell Potter Proposal is superior to the EREP Proposal and that accordingly the Independent Directors recommend that shareholders vote against the EREP Proposal.

As far as business judgement and directors' duties are concerned, the Independent Directors stand by their business judgement that the Bell Potter Proposal is superior.

The Independent Directors have acted entirely appropriately and consistent with their fiduciary duties and good corporate governance principles in recommending that the shareholders' meeting still proceed, but that it be postponed to give shareholders sufficient time to consider the EREP Proposal in light of these developments. As shareholders would appreciate, the Independent Directors have had no control over the timing of receipt by Folkestone of the revised proposals from each group.

The Independent Directors reject any assertion of any corporate governance shortfall in dealing with the 2 competing proposals. To the contrary, the revised and improved competing proposals have resulted in a choice as well as greater value for all shareholders.

Over recent days there has been inaccurate media comment which refers extensively to a letter which EREP issued on 24 February 2011 to the media as well as some but not all shareholders. EREP only provided a copy of that letter to Folkestone on 1 March 2011.

The EREP letter contains a range of inaccuracies. It would not be constructive for the Independent Directors to detail them all. Instead, this announcement clarifies further why the Independent Directors consider that the Bell Potter Proposal is superior to the EREP Proposal:

1. Uncertainty – Folkestone has a clear need for funds. The Bell Potter Proposal underwriting agreement has been signed by Bell Potter and is capable of being countersigned by Folkestone. The EREP Proposal has no underwriting or binding financing commitment support. Folkestone has repeatedly requested capital raising certainty from EREP which it has not received.

2. Price – Each of the 2 proposals contemplate a price which is a discount to both the current share price and the net tangible asset value per share. The Bell Potter Proposal contemplates a 12.5 cent capital raising price compared to the EREP Proposal minimum price of 12 cents. In net terms the difference is more pronounced having regard to the EREP acquisition, legal and other costs and the issue of performance rights to the EREP principals inherent in the EREP Proposal.

3. Fairness – Under the EREP Proposal, existing shareholders will be diluted and all existing shareholders will not be given an opportunity to retain their existing percentage shareholdings. The Bell Potter Proposal is inherently fair, as every existing Folkestone shareholder has the ability to choose whether to retain its existing percentage shareholding in Folkestone. The Bell

Potter Proposal allows for existing shareholders to apply for additional shares in excess of their entitlement if they so choose in a manner which is consistent with regulatory requirements.

4. No Related Party Transactions – Most of the resolutions being put to shareholders forming part of the EREP Proposal involve related party transactions. The Bell Potter Proposal contains no related party transactions or conflicts of interest.

The Independent Directors commissioned and received an independent report from a major accounting firm to advise in relation to the competing proposals in order to assist their business judgment. The accounting firm has advised that it does not provide permission for the report or its conclusions to be released into the public domain, as it was not prepared for that purpose. However, a copy of the report was made available to all Folkestone directors (including the EREP nominees). The report is now outdated, as it was prepared before the revised and improved Bell Potter Proposal was announced on 21 February 2011.

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